

**REPORT OF THE AUDIT OF THE
LEE COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

July 12, 2001



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To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable L. C. Reese, Lee County Judge/Executive
Honorable Harvey Pelfrey, Lee County Sheriff
Members of the Lee County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the Lee County Sheriff's Settlement - 2000 Taxes.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Lee County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
LEE COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

July 12, 2001

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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LEE COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES

July 12, 2001

Berger & Ross, PLLC has completed the audit of the Sheriff's Settlement - 2000 Taxes for Lee County Sheriff as of July 12, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Sheriff collected net taxes of \$1,153,984 for the districts for 2000 taxes. Sheriff distributed taxes of \$1,130,110 to the districts for 2000 Taxes. Taxes of \$23,454 are due to the districts from the Sheriff and refunds of \$39 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Prepare Accurate Monthly Reports
- The Sheriff Should Settle His 2000 Tax Account
- The Sheriff's Office Should Not Have Had A Deficit of \$698

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Louisville Chapter of the American Society of CPAs

To the People of Kentucky

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Honorable Harvey Pelfrey, Lee County Sheriff
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Independent Auditor's Report

We have audited the Lee County Sheriff's Settlement - 2000 Taxes as of July 12, 2001. This tax settlement is the responsibility of the Lee County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lee County Sheriff's taxes charged, credited, and paid as of July 12, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
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Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable L. C. Reese, Lee County Judge/Executive
Honorable Harvey Pelfrey, Lee County Sheriff
Members of the Lee County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 10, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following areas of noncompliance.

- The Sheriff Should Prepare Accurate Monthly Reports
- The Sheriff Should Settle His 2000 Tax Account
- The Sheriff's Office Should Not Have Had A Deficit Of \$698

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
July 10, 2002

LEE COUNTY
HARVEY PELFREY, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

July 12, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 223,464	\$ 170,744	\$ 419,107	\$ 150,760
Tangible	32,609	-	-	28,631
Intangible	-	-	-	6,206
Fire Acreage	2,428	-	-	-
Supplemental/Omitted Bills	374	255	622	248
Oil, Gas, UND, Sand, Lm, Gr.	8,353	5,815	14,108	5,636
Total Per Sheriff's Official Receipt	\$ 267,228	\$ 176,814	\$ 433,837	\$ 191,481
<u>Other Taxes and Charges</u>				
Bank Shares	18,068	-	-	-
Penalties & Interest	2,728	1,860	4,523	1,845
Franchise Corporation	69,454	36,081	94,775	-
Gross Chargeable to Sheriff	\$ 357,478	\$ 214,755	\$ 533,135	\$ 193,326
<u>Credits</u>				
Exonerations	\$ 9,275	\$ 5,177	\$ 13,083	\$ 3,296
Delinquents	12,731	8,670	21,595	8,671
Unpaid Franchise	383	197	605	-
Discounts	2,889	1,663	4,082	1,860
Total Credits	\$ 25,278	\$ 15,707	\$ 39,365	\$ 13,827
Net Tax Yield	\$ 332,200	\$ 199,048	\$ 493,770	\$ 179,499
Less: Commissions*	14,406	8,460	19,751	7,916
Taxes Due Districts	\$ 317,794	\$ 190,588	\$ 474,019	\$ 171,583
Taxes Paid	292,716	170,867	449,188	153,730
Less: Refunds (Current & Prior Year)	278	41	100	40
Less: Commission Refunds From School			(19,751)	
Taxes Due Districts as of Settlement date	\$ 24,800	\$ 19,680	\$ 44,482	\$ 17,813
Paid after settlement date	23,616	15,369	26,523	17,852
Taxes Due Districts as of Completion of Fieldwork	\$ 1,184	\$ 4,311	\$ 17,959	\$ (39)

* and ** See Page 4

The accompanying notes are an integral part of these financial statements.

LEE COUNTY
 HARVEY PELFREY, SHERIFF
 SHERIFF'S SETTLEMENT - 2000 TAXES
 July 12, 2001
 (Continued)

*Commissions:	10% on	\$	10,000
	4.25% on	\$	700,747
	4% on	\$	493,770

**Special Taxing Districts:

Library District	\$	584
Health District		1,315
Extension Service District		1,979
Soil Conservation District		433

Due Districts	\$	<u>4,311</u>
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LEE COUNTY
NOTES TO FINANCIAL STATEMENT

July 12, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of July 12, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

LEE COUNTY
NOTES TO FINANCIAL STATEMENT
July 12, 2001
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 2, 2000 through July 12, 2001.

Note 4. Interest Income

The Lee County Sheriff earned \$4,150 as interest income on 2000 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Lee County Sheriff collected \$9,919 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Lee County Sheriff collected \$560 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees was used to operate the Sheriff's office.

Note 7. Deficit Balance

Based on available records, there is a \$698 deficit in the Sheriff's official tax account. This deficit result is due to unexplainable errors the bookkeeper could not explain. A schedule of excess of liabilities over assets is included in this report as a supplemental schedule.

COMMENTS AND RECOMMENDATIONS

LEE COUNTY
HARVEY PELFREY, SHERIFF
COMMENTS AND RECOMMENDATIONS

July 12, 2001

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Prepare Accurate Monthly Reports

The Sheriff was collecting money and not including it on his reports. When the 2000 tax settlement was presented to the Fiscal Court July 12, 2001, there was an ending balance of \$110,404.52 in the tax account. Most of the money was distributed to the taxing districts on August 16, 2001 leaving an unpaid balance of \$23,414.91. KRS 134.300(1), KRS 160.510, and KRS 134.320 requires the Sheriff to report by the 10th of each month the amount of state, county, and school taxes collected during the preceding month and the disposition of such money collected. Any Sheriff failing to pay over taxes collected in a timely manner as required by KRS 134.300(3) shall be required by the fiscal court to pay a penalty (1%) for each thirty (30) day period or fraction thereof plus interest at the legal rate per annum on such taxes.

Sheriff's Response:

Agree.

2. The Sheriff Should Settle His 2000 Tax Account

The Sheriff should collect all tax receivables and pay all taxes owed to the county and other taxing districts as required by KRS 134.310(4). The Sheriff should be more diligent in the preparation of the monthly reports in order to disburse the taxes in a timely manner. On July 10, 2002, the end of the audit fieldwork, there is \$25,888 in the tax account which includes the following amounts owed to the taxing districts as disclosed:

County	\$ 1,184
School	17,959
Library	584
Health	1,315
Extension Service	1,979
Soil Conservation	<u>433</u>
Total due Districts	<u>\$23,454</u>

Sheriff's Response:

Agree.

3. The Sheriff's Office Should Not Have Had A Deficit of \$698.

The Sheriff's office should not have had a deficit of \$698. However, based on available records there is a \$698 deficit in the Sheriff's official tax account. This deficit is due to errors that the bookkeeper could not explain. A schedule of excess of liabilities over assets is included in this report.

Sheriff's Response:

Agree.

LEE COUNTY
HARVEY PELFREY, SHERIFF
SCHEDULE OF EXCESS LIABILITIES OVER ASSETS

July 12, 2001

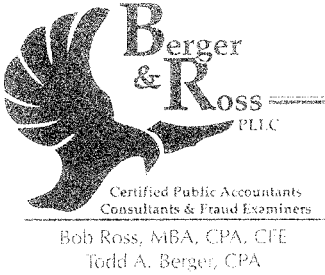
Assets

Cash in Bank	\$ 110,570
Receivables:	
Taxes Due Sheriff from State	<u>39</u>
Total Assets	\$ 110,609

Liabilities

Paid Obligations:		
Outstanding Checks	\$ 1,591	
Outstanding Liabilities	<u>83,483</u>	
Total Paid Obligations		\$ 85,074
Unpaid Obligations		
Other Taxing Districts		
County	\$ 1,184	
School	17,959	
Library	584	
Health	1,315	
Extension Services	1,979	
Soil Conservation	433	
Sheriff's 10% Add-on Fees	66	
Commissions Due Fee Account	2,425	
Interest Due Fee Account	<u>288</u>	
		<u>26,233</u>
Total Liabilities		<u>\$ 111,307</u>
Total Fund Deficit as of July 12, 2001		<u><u>\$ 698</u></u>

REPORT ON COMPLIANCE
AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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National Association of Public Accountants (NAPA)
Government Auditing Standards (GAS)

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Lee County Sheriff's Settlement - 2000 Taxes as of July 12, 2001, and have issued our report thereon dated July 10, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lee County Sheriff's Settlement - 2000 Taxes as of July 12, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Prepare Accurate Monthly Reports
- The Sheriff Should Settle His 2000 Tax Account
- The Sheriff's Office Should Not Have Had A Deficit Of \$698

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -
July 10, 2002

